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ZNR UUUUU ZZH  
R 031020Z MAR 09  
FM AMEMBASSY PRETORIA  
TO RUEHC/SECSTATE WASHDC 7534  
INFO RUCPDC/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE  
RUEHZO/AFRICAN UNION COLLECTIVE  
RUEHBJ/AMEMBASSY BEIJING 0949  
RUEHRL/AMEMBASSY BERLIN 0677  
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RUEHFR/AMEMBASSY PARIS 1542  
RUEHSG/AMEMBASSY SANTIAGO 0233

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E.O. 12958: N/A  
TAGS: [ENRG](#) [EMIN](#) [EPET](#) [SENV](#) [BEXP](#) [EINV](#) [SF](#)  
SUBJECT: AFRICAN MINING INDABA WATCHING GLOBAL MARKETS WITH GROWING CONCERN

REF: A) DURBAN 19  
B) PRETORIA 228  
C) 08 PRETORIA 2733  
D) 08 PRETORIA 2732  
E) 08 PRETORIA 315

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11. (SBU) SUMMARY: The 14th African Mining Indaba took place in Cape Town February 9-12 under the cloud of an unprecedented global commodity downturn and economic malaise, in great contrast to last year's celebration of the commodity boom (Ref E). Last year's worry of regional power shortages has greatly diminished, but regulatory uncertainty remains a significant issue in South Africa and the region. Investment and credit in mining are scarce on the continent. Observers see signs of some recovery in China, whose demand has been the key driver for mining investment. End Summary.

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Mining Industry Hits Rock Bottom - Indaba Views  
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12. (SBU) Minerals/Energy Officer and Specialist attended the African Mining Indaba February 9-12 in Cape Town. The Indaba is one of the world's largest mining investment conventions, attended by ambassadors, ministers, and company CEOs from all parts of the world. This year's Indaba's consensus view was that Chinese interest in resource deals in Africa is sustained, despite its downturn in demand (septel). Refs A-D provide recent reporting on how the downturn has adversely affected mining and mineral processing in South Africa. Ref E analyzed last year's Indaba back in the commodity boom and frenzy, when scarce power supply was the issue of the moment.

13. (SBU) Attendance at this year's African Mining Indaba was down one fifth from the record boom-time attendance last year (from 5000 to 4000). Conference Director Tim Wood told delegates that companies with market values totaling \$1.3 trillion last year were represented at the Indaba this year and that this year their value had plummeted to \$560 billion. Keynote speakers detailed the extent of weak global growth, particularly in the U.S. and China. The

global slowdown has in turn shriveled demand for basic commodities, with the exception of gold, which still draws investors seeking safe havens in turbulent times. Some speakers pointed out signs of a hoped-for turn-around, particularly in China, and the observation that the mining industry had seen and overcome cyclical downturns many times before. A cash-rich uranium prospecting company told Minerals Officer it was now easy to get appointments with bankers and he had to fend off desperate project promoters. One delegate was quoted: "There are some hopeful people here with mines that never can be profitable, looking for financing that isn't there."

14. (SBU) Mining Minister Buyelwa Sonjica called on mining companies to hold off on retrenchments and warned that there would be no extensions for the end-April due-date for applications for new-order prospecting rights. A recent ranking by mining consultancy Behre & Dolbean of the investment climate of 20 mining countries placed South Africa nineteenth, largely because of uncertainties over security of mining rights. An investment banker warned that sensitive black empowerment deals required under the mining charter and the accompanying Minerals and Petroleum Resource Development Act were in breach of debt covenants after a deterioration in company earnings and share prices. (Note: Most BEE deals rely on dividend streams to pay interest on loans used to buy shares in companies. End Note.) Minister of Finance Trevor Manuel provided a life-line of sorts with his Budget decision to delay by a year the implementation of mining royalties, based to a greater extent on turnover rather than income, which would lessen financial burdens on struggling mining companies.

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Every Cloud has a Silver Lining

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15. (SBU) Energy Minister Buyelwa Sonjica offered help to the stricken South African mining industry in her opening address to the Mining Indaba. She stressed that her Department aimed to provide an enabling environment for industry to overcome the global economic slowdown, which she characterized as a "still unfolding process". Sonjica said South Africa must manage the current slowdown and then be prepared for the next commodity boom. The Minister cited government infrastructure spending and the Department of Minerals and Energy task force that has been considering measures to reduce job losses. Sonjica called on industry to use all means possible to avoid retrenchments. She said she was committed to reviewing the Mining Charter to assure that efforts to transform the industry were making progress. She admitted that Broad-Based Black Economic Empowerment provisions were not always yielding real broad-based transformation (that is, reaching beyond the usual BEE players.) Sonjica warned mining companies that they must submit applications for conversions of mining licenses under the Minerals and Petroleum Resource Development Act by April 30. She emphasized the government's commitment to improving mine safety and securing greater downstream minerals beneficiation in South Africa. Finally, Sonjica said South Africa had postponed - but not abandoned - its plans to build new nuclear power plants.

16. (SBU) Minister of Finance Trevor Manuel announced a 12-month delay in imposing new tax royalties under the Minerals and Petroleum Resource Development Act, in a key contemporaneous budget announcement in Parliament. This announcement recognized the difficult situation facing the mining sector and offered a temporary respite. At the same time, Manuel announced increased infrastructure spending and support to Eskom. On the Indaba margins, a rumor circulated that the Department of Minerals and Energy would be split into two to allow better planning in the two key sectors. The Minister did not mention this in her speech to the Indaba.

17. (SBU) Much of the discussion revolved around when the downturn would turn around. Many speakers saw hopeful signs in China, but were pessimistic about the American market. Anglo American South African Head Kuseni Dlamini subscribed to the rosy view that Africa could jump start the downturned global economy. Rio Tinto Vice

President Jean Chawapiwa-Puma said her company was focused on managing unprecedented difficulties, while preparing for the eventual upturn.

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How Bad is it? Pretty Bad  
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¶18. (SBU) The Indaba maintained the tradition of an early session on specific commodities. Most commodity prices have fallen 50-70 percent from 2008 highs, with the single exception of gold, which has maintained its value as a financial safe haven. Base metals such as copper, zinc, and nickel have plummeted, such that many Qsuch as copper, zinc, and nickel have plummeted, such that many projects are now under water. Platinum Group Metals' situation is tied to the lackluster American car market. Platinum is far off its March 2008 peak of \$2,276 per ounce, now floundering just over \$900.

Many analysts saw tentative signs of improvement in markets, pointing out long-term resource challenges and destocking by consumers that will ultimately turn prices back. Uranium suffers some volatility and weakness in its price, but some analysts were optimistic given limited supply and long-term demand for a growing number of nuclear power plants.

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Diamonds Challenge - Power of Love  
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¶19. (SBU) Diamond guru Chaim Even-Zaher said the diamond market's health was tied to the strength of the U.S. market. He foresaw a dramatic drop of about 60 percent in rough diamonds in 2009. DeBeers Executive Director Stephen Cussier said there were too many

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rough diamond stocks and debt in companies. Nevertheless, he said DeBeers was positioned to weather the storm. After the Indaba, Botswana-based Debswana announced that a number of significant mines were on "care and maintenance". Both Even-Zaher and Cussier had a long-term positive take on diamond demand. Even-Zaher said there would still be sex, love, marriage, divorce, and remarriage, all driving diamond demand. The DeBeers officer said even in tough times, there was still love.

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Gold Decoupled from other Commodities  
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¶10. (SBU) Gold stood out as an exceptional good news story at the Indaba, as its price -- alone among commodities -- has held its strength, as a safe haven. One analyst said, "gold is as gold does," pointing out its special quality as a hybrid investment for storing value, apart from its pure commodity utility. AngloGold Ashanti, Newmont, RandGold, Gold Fields, and Harmony all had bullish stories to tell about commitment to safety and their project pipelines. AngloGold Ashanti proudly pointed out that their Mponeng mine had breached the previous deepest depth for mining of 3,777 meters (visited by Energy Officer last year).

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Retreat of Resource Nationalism  
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¶11. (SBU) International Finance Corporation Mining Division Head William Bulmer said, "The boom in the commodity prices led to a real resurgence in resource nationalism and participation in mining companies by governments across the world, including Africa." He cited examples in the DRC, Zambia, and South Africa. Bulmer said, "In this current market, resource nationalism will recede." He said Africa should move away from nationalism and excessive intervention to attract investors at a time when metal prices are collapsing.

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Rome was not Burned in a Day  
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¶12. (SBU) U.S. Council on Foreign Relations Senior Fellow Dr

Russell Walter Meade emphasized that the world has seen and overcome economic crises before and this one would be no different. He noted that "Rome was not burned in a day," as remarked by one Visigoth to another. Meade characterized the current crisis as stemming from a "stupid banker crisis" (a frenzy of ill-advised lending and a profusion of financial instruments that out-stripped the ability to price underlying risk) and unprecedented imbalances between current account and trade surplus and deficit countries. He said China in particular suffered from a bubble of excess manufacturing capacity. The result of the crisis that arose from these imbalances will be a substantial period of weak demand in commodities tied to manufacturing. Meade saw the way out of the crisis as targeting infrastructure spending, promoting growth of the middle class, and maintaining faith in liberal capitalism and globalization.

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Comment - China to the Rescue?  
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¶13. (SBU) South Africa to some extent missed out on the commodity boom -- because of challenges related to regulatory uncertainty, transformation requirements, safety problems, power shortages, bulk transport bottlenecks, and mature geology -- but it and the rest of Africa will not miss out on the commodity bust. Mining companies have reacted quickly to purge the excess of projects and to limit mineral supply. At the same time, they are trying to remain flexible to take advantage of the inevitable upturn. Companies that held off on retrenchments - hoping for a short downturn - have now concluded otherwise and are now scaling back operations and employment. Chinese demand is seen as the last great glimmer of hope for a turnaround given the expanding recession in many parts of

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the world. It remains to be seen if that is the case.  
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